

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Regulation 13(4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 against M/s B M Gandhi Securities Private Limited, member, The Stock Exchange Mumbai, having SEBI Regn: No. INB 01984835, in the matter of alleged manipulation in the scrip of Malvika Engineering Ltd.

1.0 BACKGROUND

- 1.1 Pursuant to Chairman's order dated August 31, 2002, Securities and Exchange Board of India (SEBI) conducted investigation into the alleged irregularities in the trading in the scrip of M/s Malvika Engineering Limited (hereinafter referred to as "MEL") for two periods i. e December 20, 1999 to March 31, 2000 and August 7, 2000 to August 31, 2000 (hereinafter referred to as relevant period). The investigation revealed that during the relevant period the price of the scrip moved from Rs. 9.40 to Rs.5.00. The scrip touched a high of Rs 11.10 on August 14, 2000 and a low of Rs 5.00 on August 31, 2000. The volume of the scrip increased from 100 shares on August 4, 2000 to 1,19,500 shares on August 7,2000 and 1,59,500 shares on August 08, 2000.
- 1.2 During the said investigation, it was found that M/s B M Gandhi Securities Private Limited (hereinafter referred to as the broker) is the member, The Stock Exchange Mumbai (hereinafter referred to as BSE), having SEBI Registration No. INB 01984835 has transacted significantly in the scrip of MEL during the relevant period.

2.0 Appointment of the Enquiry Officer

- 2.1 Vide order dated July 24, 2003, an Enquiry Officer was appointed by SEBI under Regulation 5 of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as Enquiry Regulation) to enquire into the violations of the provisions of Securities and Exchange Board of India Act, 1992, the Securities and Exchange Board of India (Stock Brokers and Sub brokers) Regulations, 1992 (hereinafter referred to as Broker Regulations), if any, by the Broker.
- 2.2 The Enquiry Officer after conducting the Enquiry in terms of the Enquiry Regulations found that broker has violated Clause A of Code of Conduct specified in Schedule II read with Regulation 7 of Broker Regulations and submitted his Enquiry Report dated March 11, 2004 recommending the minor penalty of suspension of the Certificate of Registration of the broker for a period of two months.

3.0 Show Cause Notice, Reply and Personal Hearing:

- 3.1 A copy of the said Enquiry Report along with a show cause notice dated March 24, 2004 was issued to the broker under Regulation 13(2) of the Enquiry Regulations informing about the Enquiry Officer's recommendation for suspension of its Certificate of Registration for a period of two months and advising it to show cause as to why action as may be considered appropriate should not be taken against it. The broker,

vide letter April 22, 2004 replied to the show cause notice wherein it reiterated most of the submissions made by it before the Enquiry Officer.

- 3.2 A personal hearing was also granted to the broker before SEBI on January 13, 2006 which was attended by the broker who by and large reiterated the submissions made before Enquiry Officer. The broker has filed the written submissions on January 16, 2006.

4.0 Consideration of the Issues and Findings

- 4.1 I have carefully examined the facts and circumstances of the case. I have also considered the Enquiry Report and the submissions of the broker made before me during the personal hearing and also the post hearing written missions submitted by the broker.

- 4.2 As regards, findings of the Enquiry Officer, I note the following as the most important observations:-

- a) The Enquiry Officer found that the broker had purchased 1,57,600 shares and sold 2,46,700 shares for its sub-broker M/s Harvic Management Services Limited (hereinafter referred to as Harvic). The Enquiry Officer has also found that Harvic along with some other entities namely M/s KP Investments and M/s Havemore financial Services (I) Limited created volume in the market by executing arranged deals. The Enquiry Officer also found that during August 2000 the broker had made gross purchases of 1,31,600 shares and gross sales of 81300 shares for Harvic. The Enquiry Officer has also found that all the transactions done by the broker in the scrip of Malvika had emanated from Harvic which should have been some source of alarm or suspicion to the broker

as to the activities of the Harvic and its interest in the particular scrip.

- b) Further, I observe that that the Enquiry Officer has concluded that the broker has failed to exercise due diligence in the conduct of its business in the scrip of Malvika and thereby violated Code of Conduct set forth in Schedule II of Regulation 7 of Broker Regulations.

4.3 I further note that during the personal hearing before me on January 13, 2006 the broker was advised to submit the detailed procedure which the broker had followed while appointing the sub-broker Harvic and also the steps which it had put on the system to monitor the activities of the sub-broker. Accordingly the broker forwarded written submissions vide letter dated January 16, 2006 wherein the broker did not give any satisfactory reply to the questions put to them.

4.4 Having examined the Enquiry Report, the Show Cause Notice dated March 24, 2004 issued to the broker and the reply dated April 22, 2004 from the broker reiterating the submissions already made before the Enquiry Officer, submissions made by the broker during the personal hearing and the post hearing written submissions made by the broker. I do not find any substantial reason to defer from the findings and recommendations of the Enquiry Officer.

5.0 ORDER

5.1 Now, therefore in exercise of the powers conferred upon me , by Section 19 of SEBI Act, 1992 read with Regulation 13 (4) of SEBI (Procedure for Holding Enquiry by the Enquiry Officer and Imposing Penalty) Regulations 2002, I, hereby suspend the Certificate of registration of M/s B M Gandhi

Securities Private Limited, member, The Stock Exchange Mumbai, having
SEBI Registration No. INB 01984835 for a period of two months.

5.2 This order shall come into effect after the expiry of 21 days.

DATE :25.01.2006

PLACE: MUMBAI

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA